

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (legis.state.nm.us). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

ORIGINAL DATE 2/2/06

SPONSOR Garcia, MH LAST UPDATED _____ HB 739

SHORT TITLE School Facility Construction Gross Receipts SB _____

ANALYST Schardin

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
	(13,162.5)		Recurring	General Fund
	(8,775.0)		Recurring	Local Govern- ments

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

Public School Facilities Authority (PSFA)

SUMMARY

Synopsis of Bill

House Bill 739 creates a new gross receipts tax deduction for receipts from providing construction services to a school district or the public school facilities authority to construct a public school facility.

The effective date of these provisions is July 1, 2006.

FISCAL IMPLICATIONS

Based on information provided by the Public School Capital Outlay Council, TRD estimates that total state spending on public school construction averages about \$122 million per year. This amount is matched by local spending, bringing total public school construction spending to an average of \$250 million per year. In addition to this \$250 million from the state and local matching, local districts also pay about \$125 million more per year for projects separate from the Public School Capital Outlay Council for a grand total of \$375 million per year.

PFSA estimates that about 10 percent of this \$375 million will be spent on design and other services not eligible for the deduction. Assuming a statewide effective tax rate of 6.5 percent on the remaining \$337.5 million, this deduction will reduce gross receipts tax revenue by about \$21.9 million. About 60 percent of this revenue loss will accrue to the general fund, while about 40 percent will accrue to local governments.

ADMINISTRATIVE IMPLICATIONS

The administrative impact on TRD will be minimal.

TECHNICAL ISSUES

TRD and PSFA note that the sale of construction services to government entities at the federal, state and local level are all generally subject to the gross receipts tax. House Bill 739 would provide a deduction for certain spending by local and state governments, and thus could lead to a federal challenge that New Mexico's taxation of construction is discriminatory. Given the large presence of federal facilities in the state, this could pose a serious threat to the state gross receipts tax base.

OTHER SUBSTANTIVE ISSUES

Because public school operations are paid for from the state general fund, this bill will reduce the cost of construction but result in less general fund revenue available for operations.

Construction currently represents roughly 13 percent of the state's gross receipts tax base, or about \$330 million of state and local revenue per year.

SS/mt